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SUBJECT: JORDAN COMMITTED TO ENDING FUEL SUBSIDIES

Classified By: Charge d'Affaires David Hale for reason 1.4 (b) and (d)

11. (C) In conversations this week with virtually every relevant Jordanian official - the King, Prime Minister, outgoing Finance Minister, Planning (and acting Finance) Minister, and Royal Court Minister, Charge has heard renewed pledges of their commitment to ending fuel subsidies over a three-year time span. (These subsidies, calculated at an average annual crude oil price of \$40 per barrel in the 2005 budget, were equivalent to \$437 million in the GOJ's current expenditures. The GOJ in June recalculated the subsidies assuming a crude oil price of \$45 per barrel, which would place the total cost at around \$600 million. If current trends held for the rest of the year, an average price of \$55 per barrel and a \$940 million subsidy could result. This would leave a shortfall in the oil subsidy budget line item of \$503 million.) Current thinking is to announce a 25% cut in the subsidies starting in early July, once a new Finance Minister and other anticipated cabinet changes are in place. Prime Minister Badran wants a more politically palatable team in place, and the King is giving him some scope for further changes so long as Badran sticks with the comprehensive reform program. The political risks from ending subsidies are real, and understood by those who remember the 1989 violence triggered in Maan by efforts then to reduce subsidies. But the government recognizes this is a necessary step, given the impact rising oil prices have had on the budget, the resulting threat to macroeconomic stability, and the unavailability of unlimited support from the international donor community, especially in the Gulf (\$760 million in projected grants from GCC countries for 2005 have not materialized).

12. (C) As the government embarks on this process, it will be moving simultaneously to unveil comprehensive reforms of the broad sweep of government activity, including in the political sphere. The leadership is committed to pursuing this reform path for its own sake, recognizing the necessity of meeting the aspirations of its public. Unfortunately, at this stage in Jordan the reform process is poorly understood and the public is easily manipulated by traditional forces who would fall by the wayside if true political reforms take root. They paint a picture of western-imposed reforms designed to sell Jordan's patrimony to rich Palestinians through privatization, or to get Jordan ready to be a Palestinian state. These may sound like absurd charges, but they get traction in a conspiracy-laden environment, and the King had to deny them in person on television to tone down national debate. The case for reform is especially hard to make among Jordan's poor, who will suffer the most from the end of subsidies - the largest of which are on fuel products disproportionately consumed by the poor, such as diesel and kerosene (65% subsidized) and fuel oil (46% subsidized) - and job losses made through privatization and the ongoing streamlining of the military.

13. (C) To get through this challenging period, Jordan needs as much budget support as it can get. This argument was the basis for their request for a full cash transfer of the supplemental. We have always maintained to the Jordanians that as they move forward at an appropriate pace with reform, they can count on support -- and the deeper the reforms, the easier the case will be for assistance dollars. Those changes are proceeding, and the best way we can shore up the reformers is with a substantial cash transfer, along the 70/30 division decided upon by the Department. As the Queen recently told the Secretary, of any country in the Middle East, you can expect no better return on our assistance dollars than in Jordan. They need the breathing space of an expeditious cash transfer this year in order to ensure we maintain forward momentum on reform. If this particular cabinet at this particular moment in Jordan stumbles because of its fiscal stresses (produced by high oil prices), the enemies of reform, here and in neighboring countries, will point to the folly of the reform process.

HALE